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ASSESSMENT OF NEED FOR
ADDITIONAL TRANSIENT HOUSING

DOWNTOWN WATERFRONT
FANEUIL HALL URBAN RENEWAL AREA

BOSTON, MASSACHUSETTS

OCTOBER 1983



Laventhol & Horwath

Certified Public Accountants

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OCTOBER 1983



Laventhol & Horwath

Certified Public Accountants

The Beacon Companies
Boston, Massachusetts 02109

The accompanying report entitled "Assessment of Need for Additional Transient Housing, Downtown Waterfront Faneuil Hall Urban Renewal Area, Boston, Massachusetts" has been prepared in accordance with our engagement letter dated October 27, 1983.

The purpose of our study was to assess the need for additional transient housing within the Downtown Waterfront Faneuil Hall Urban Renewal Area and relate this need to the proposed development of additional transient units on Rows Wharf.

During our study, we discussed market demand for transient housing within both Boston and the Urban Renewal Area, with various representatives of government, commerce and industry. We researched current levels of demand and factors affecting future growth in demand for transient housing in the Urban Renewal Area.

In accordance with our engagement letter, we did not ascertain the legal and regulatory requirements applicable to the project, including zoning and other state and local government regulations, permits and licenses. Further, no effort has been made to determine the possible effect on this project of present or future federal, state or local legislation, including any environmental or ecological matters or interpretations thereof. Also, we have not analyzed the potential impact of possible energy shortages.

The conclusions and recommendations presented in this report are based upon estimates, assumptions, and other information available to us as of October 31, 1983 that were developed from our research of the market, our knowledge of the industry, and information provided by you.

Since the market occupancy projections presented in this report are based upon estimates and assumptions which are inherently subject to uncertainty and variation depending upon evolving events, we do not represent them as results which will actually be achieved.

This report is intended solely for your information for submission to appropriate public agencies and may not otherwise be referred to or quoted in any public communication or release without our prior written consent.

Laventhol & Horwath

October 31, 1983

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BOSTON, MASSACHUSETTS

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The purpose of our study was to assess the need for additional units of transient housing in the Downtown Waterfront Faneuil Hall (DWFH) Urban Renewal Area of Boston. More specifically, we related this need to the proposed development of additional transient housing units on Rows and Fosters Wharf, hereinafter referred to as Rows Wharf.

The scope of our work included an analysis of the general market trends in Boston, an analysis of existing lodging facilities in Boston and within the DWFH Urban Renewal Area as to their levels of utilization and the segments of demand accommodated by each, an analysis of potential growth in demand for transient housing units within the subject area and an analysis of the need for additional transient housing units.

As a result of our analysis of the present and projected supply of and demand for transient housing in the DWFH Urban Renewal Area

as well as the Boston market, it is our opinion that there is a current need for approximately 300 units of additional transient housing within the subject Urban Renewal Area. The high levels of occupancy currently being experienced by the two hotel properties within this area, the significant amount of demand which is reported to be currently turned away from this sub-market and anticipated growth in office development in downtown Boston support our conclusion.

The following sections of this report highlight our principal findings.

The site for the proposed additional transient housing units is located on Rowes Wharf in the southeast section of the Downtown Waterfront Faneuil Hall Urban Renewal Area. The site is bordered by Harbor Towers Condominiums to the north, Boston Harbor to the east, 400 Atlantic Avenue Office Building to the south and Atlantic Avenue to the west. Atlantic Avenue provides convenient access from the site to Logan International Airport, Interstate 93 as well as streets serving the downtown Boston area. The map on the facing page illustrates the location of Rowes Wharf.

In order to address the need for additional transient housing units in the DWFH Urban Renewal Area, it is necessary to understand the dynamics and strengths of Boston's economy. The following paragraphs provide an overview of the development of Boston's economy over the past several decades as well as present and future development activity.

HISTORIC ECONOMIC GROWTH

Boston's economy has historically been in a series of severe declines and recoveries beginning in 1860 with Boston's decline as a major eastern seaport. During the years 1945 to 1962, Boston experienced a decline as a major textile and shoe manufacturing center. However, between 1950 and 1980, a substantial change occurred in Boston's economic structure, making Boston less vulnerable to national business cycles. Employment increased by 50 per-

cent in the industrial classifications of transportation, communication, public utilities, finance, insurance, business and professional services while manufacturing and trade declined by 8 and 10 percent, respectively. As the manufacturing and industrial base expanded in Boston's suburban communities along the Route 128 beltway, related services already located in downtown Boston, such as banking, insurance and finance, expanded with them.

This employment transformation was a principal catalyst to the dramatic increase in office building construction that has occurred in Boston since 1960. In the thirty-year period following the national depression of the 1930's, construction or investment in office space was virtually nonexistent. Since 1960, however, approximately 20 million gross square feet of office space has been constructed or converted from nonoffice structures in downtown Boston.

Office space development led economic resurgence in many areas. Boston became a focal point of considerable public and private investment between 1970 and 1980 with a total investment in excess of \$1 billion a year throughout the ten-year period. This decade of private investment and urban renewal in the Boston area resulted in:

- . The rebirth of the City of Boston's central commercial, financial and government district;

- . The reformation of the center city's economic base from manufacturing to high service activities such as medical research, higher education, insurance and banking;
- . The revitalization of the Port of Boston as a major commercial facility in the United States;
- . The emergence of high technology industries as a substantial economic force within the state and country; and
- . The development of Boston as a tourist and convention city.

Indicative of this expansion period is growth in employment and airport activity. During the period from 1970 to 1982, employment in the Boston SMSA increased 10.9 percent and passenger activity at Logan International Airport increased 69 percent.

PRESENT AND FUTURE DEVELOPMENT ACTIVITY

The significant expansion and resurgence of Boston's economy in the 1970's resulted in the formation of two major market areas within the City: the Back Bay and Downtown Boston. The Back Bay is Boston's fashionable retail center and is also the center for Boston's major convention activity. The Back Bay is the home of the John B. Hynes Auditorium. Downtown Boston, located in the City's eastern side along the waterfront, is Boston's financial and government district. Within the Downtown Boston market area, the Downtown Waterfront Faneuil Hall Urban Renewal Area forms a

major sub-market. This Urban Renewal Area has become a primary location within the City over the past decade due primarily to the development of Faneuil Hall Marketplace, a major tourist attraction. In fact, Faneuil Hall Marketplace had approximately 15 million visitors in 1982 and is currently one of the largest tourist attractions on the east coast of the United States.

Over the next several years, Boston will experience a significant increase in office space, particularly in the Downtown Market area. As shown in the table on the facing page, there is currently a total of 3,760,286 square feet of office space under construction in Downtown Boston which will result in an increase of 24.5 percent in office space in the Downtown Area. A total of 485,000 square feet of office space is under construction within the DWFH Urban Renewal Area. As of the fourth quarter of 1983, Downtown Boston's office vacancy rate was only 2 percent according to Spaulding & Slye, a local real estate brokerage firm. In fact, a study conducted by a Milwaukee firm in July of 1983 indicated that Boston has the lowest vacancy rate of 24 major U.S. cities surveyed.

In a report released by the Boston Redevelopment Authority, employment in Downtown Boston is projected to increase 16.9 percent by 1990, an increase of 41,000 employees as shown in the table on the following page.

PROJECTED GROWTH IN EMPLOYMENT IN BOSTON

	<u>1983</u>	<u>1985</u>	<u>1990</u>	Percent increase <u>1982-1990</u>
Downtown Boston	243,000	267,000	284,000	16.9%
Back Bay	<u>44,500</u>	<u>53,500</u>	<u>56,500</u>	<u>27.0</u>
Total	<u>287,500</u>	<u>320,500</u>	<u>340,500</u>	<u>18.4%</u>

Source: Boston Redevelopment Authority.

FMR Properties, Inc. is coordinating the conversion of the Commonwealth Pier Exhibition Hall into a 1.4 million square foot trade mart for the computer/information industry. The facility, to be known as BOSCOM, will include 160,000 square feet of exhibit space and 600,000 square feet of permanent showrooms. Construction is underway and expected to be completed by late 1984.

SUMMARY

The present and future development activity in Boston should result in increased demand for transient housing, particularly in the Downtown Market Area.

At the present time there are a total of 17 lodging facilities with 7,356 rooms in Boston. In addition, there are three hotels presently under construction, adding an additional 1,934 first-class lodging units to the Boston Market. Also, the Bostonian Hotel is considering an addition of 50 to 70 guest rooms.

The supply of lodging facilities in Boston can be divided into three distinct geographical locations: Back Bay, Midtown and the Financial/Government District. While the Back Bay and Financial/Government District lodging facilities serve the Back Bay and Downtown Boston Markets, respectively, lodging facilities located in the Midtown District serve both market areas due to their locations midway between each major market area. The table on the facing page lists the lodging properties according to their geographical location. Two of the properties listed, the Marriott Long Wharf and the Bostonian, are within the DWFH Urban Renewal Area.

As shown in the table, the Back Bay area has significantly more hotel rooms than the Financial/Government district. While the Financial/Government Center District will have approximately one-half as many transient housing units as does the Back Bay once the projects under construction are completed, the Downtown Boston area will have over three times the amount of office space as the Back Bay. Although the supply of office space does not correlate directly to a need for additional transient housing units, it is certainly a major factor in assessing hotel demand.

The principal sources of demand for the competitive rooms in Boston are: business and commercial travelers who are visiting the city's businesses, industries and government institutions for purposes of inspection, management strategy sessions, consulting, sales visits and other purposes; convention and group meeting delegates who are attending various trade shows and association and corporate meetings; and tourist and leisure travelers who are visiting Boston's many and varied attractions.

At the end of August, 1983 the lodging facilities in Boston achieved a combined year-to-date market occupancy of approximately 66 percent. They are projected to achieve an overall market occupancy of 65 to 70 percent in 1983. Within the three geographic markets, the financial/government center district consistently achieves levels of occupancy and average rate signifi-

cantly above the Back Bay and Midtown areas. Furthermore, according to our estimates, the two lodging facilities located within the DWFH Urban Renewal Area, the Bostonian and the Marriott Long Wharf, have achieved the highest year-to-date occupancy levels in the city of Boston. Based on our market research, it is projected that these two properties will achieve a combined sub-market occupancy of over 85 percent in 1983 accommodating over 170,000 room nights of demand. A summary of occupancy levels and demand segmentation for the geographic market areas is provided below:

MARKET SEGMENTATION

	<u>Year-to-date 8/83 market occupancy</u>	<u>Projected 1983 market occupancy</u>	<u>Business commercial travelers</u>	<u>Convention and group meeting travelers</u>	<u>Tourist and leisure travelers</u>
Downtown Waterfront Faneuil Hall Area*	85-90%	85-90%	38%	27%	35%
Financial/Government Center area	75-80	77-83	44	21	35
Back Bay	65-70	65-70	40	37	24
Midtown	<u>55-60</u>	<u>58-63</u>	<u>40</u>	<u>25</u>	<u>35</u>
Total Boston Market	<u>66%</u>	<u>65-70%</u>	<u>41%</u>	<u>31%</u>	<u>28%</u>

*Sub-market of Financial/Government Center Area.

The high levels of occupancy experienced by the two properties in the DWFH Urban Renewal Area are indicative of visitors' strong desire to stay in this area. A lodging facility located within the Urban Renewal Area is not only walking distance to one of the east coast's major tourist attractions but it is walking distance to the financial district, government center and Boston's waterfront.

In addition, the Area is readily accessible from Logan International Airport and Interstate 93 (Boston's Central Artery).

In addition to demand that is accommodated by lodging facilities located in the DWFH Urban Renewal Area, there is a significant amount turned away. We project that in 1983, the Bostonian and the Marriott Long Wharf will experience approximately 230 to 260 days when they are filled to capacity and turning away business. Based on our market research, we project that in 1983, over 73,000 room nights of lodging demand will be turned away from the DWFH Urban Renewal Area. Furthermore, the significant increase in office space that will occur in Downtown Boston over the next several years should increase the demand for transient housing facilities in the subject Urban Renewal Area.

The nature of this demand is such that a facility containing minimal public meeting facilities would be appropriate. Further, such a facility would have only minimal impact, if any, on hotels outside the DWFH Urban Renewal Area.

Based on our research of the Boston lodging market, we conclude that there is a current need for approximately 300 additional first-class transient housing units in the DWFH Urban Renewal Area exclusive of the proposed addition to the Bostonian Hotel. We consider Rowes Wharf to be highly suitable for the development of transient housing units as it has frontage on Boston Harbor and it provides convenient access to Interstate 93, Logan International Airport and streets serving the Urban Renewal Area. Furthermore, development of Rowes Wharf will significantly improve the aesthetics of Boston's waterfront. Our conclusions regarding the need for additional transient housing units are based on the following:

- . The high levels of occupancy currently being achieved in the DWFH Urban Renewal Area--the highest in the City of Boston;

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- . The significant amount of demand that is being turned away from the subject Urban Renewal Area;
 - . The significant increase in office space that is expected occur in the Downtown Boston Market Area over the next several years, and
 - . The attractiveness of the Faneuil Hall/Waterfront area as a lodging location.

